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11 September 1958

CURRENT INTELLIGENCE WEEKLY SUMMARY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

TAIWAN STRAIT SITUATION Page 1

The increasingly belligerent statements by Chinese Communist leaders and Premier Khrushchev's blunt warning to the United States are intended to serve notice that the bloc is prepared for a showdown over the offshore islands. Bloc leaders may believe, however, that their present tactics will enable them to progress toward political goals without major hostilities. The USSR will probably raise the issue of "American provocations" against Communist China in the forthcoming UN General Assembly session, where a major debate over the question of Chinese representation appears in the making. Although Peiping has agreed to resume ambassadorial talks with the United States, if these talks fail to progress, the Communists will probably press for multilateral negotiations on a higher level. Militarily the Chinese Communist naval build-up in the strait area continues. Bombardment of the Kinmens has been light except for 8 September, when some 50,000 rounds were fired against the islands. The Chinese Nationalists have had difficulty in supplying Kinmen, even with American naval escorts. The dominant reaction throughout the free world to the prospect of Sino-American negotiations was one of relief, although there was no expectation that any permanent solution would be achieved. [REDACTED]

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MIDDLE EAST DEVELOPMENTS Page 6

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[REDACTED] Nasir has in effect indicated to UN Secretary General Hammarskjold that he would not be willing to provide the assurances of noninterference in Jordan desired by King Husayn before the King agrees to the withdrawal of British troops. Jordanian officials consider the Hammarskjold mission has failed, and it is likely that Jordan will again place its complaint against UAR interference before the next UN General Assembly session. Cairo is striving to increase its influence in the Iraqi armed forces, presumably to strengthen the faction, led by Deputy Prime Minister Arif, which favors membership in the UAR. [REDACTED]

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PART II**NOTES AND COMMENTS****USSR SCHEDULES 21ST PARTY CONGRESS FOR JANUARY Page 1**

The Soviet party central committee on 5 September decided to convene an "extraordinary" 21st party congress on 27 January to discuss economic goals under the Seven-Year Plan (1959-65). While the agenda does not provide for the election of a new central committee, changes may be made in that body; it is also likely that membership changes in the party presidium and secretariat will be made in furtherance of Khrushchev's political control. The congress is expected to extol Khrushchev's economic policies in such appealing terms as to obscure the likelihood that a slower rate of improvement in living standards will be necessary if the present rate of industrial growth is to be maintained. [REDACTED]

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EAST GERMANY CONCERNED OVER REFUGEE FLIGHTS TO WEST . . . Page 2

East German officials are greatly concerned over the mass refugee flights to West Germany which have continued despite severe control measures in East Germany and East Berlin. The situation has also caused all the West German political parties to condemn strongly the political oppression in East Germany which has caused this exodus. [REDACTED]

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CZECH WAGE REFORM Page 4

A campaign is under way in Czechoslovakia to popularize wage reform measures and work norm revisions which will affect approximately two million industrial workers. The regime hopes to lower costs and increase industrial output by raising labor productivity proportionately more than wages and by redistributing wage funds among workers. While the regime plans to institute reforms cautiously, any rise in work norms is bound to antagonize labor and could hamper the regime's program for continued economic expansion. [REDACTED]

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CAMBODIA Page 5

Premier Sihanouk seems likely to become even more uncompromising than in the past in handling Cambodia's border and other disputes with neighboring South Vietnam and Thailand. His attempts to use Peiping as a counterweight to Saigon and Bangkok will probably accelerate Communist subversion in Cambodia. [REDACTED]

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SOUTH KOREAN LEADERSHIP Page 6

The relatively moderate reaction in South Korea to the Taiwan Strait developments contrasts with the lively interest shown in the Indonesian situation last

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PART II (continued)

May when government-staged demonstrations called for "volunteers" to aid the insurgents. The present attitude may in part result from President Rhee's waning dynamism and gradual withdrawal from day-to-day politics. The poor health of Rhee's chief political lieutenant, Yi Ki-pung, who may have to step down as chief of the governing Liberal party, is further weakening the administration leadership. These factors reduce the possibility of an orderly and constitutional succession when Rhee dies.

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NORTH AFRICA Page 7

Morocco and Tunisia are committed to support Algerian independence, but are beset by internal difficulties and apparently have given little more than lip service to their agreement of last June to coordinate foreign policies and collaborate closely in other spheres. Tunisia's decision to join the Arab League, following similar action by Morocco, was more an effort to avoid isolation from the rest of the Arab governments than a gesture of North African solidarity. A recent meeting of the Maghreb Secretariat--composed of Algerian, Moroccan, and Tunisian political leaders--indicated only superficial harmony among the North African leaders.

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CYPRUS Page 8

EOKA's announcement on 7 September of the termination of its month-old, self-imposed "truce" may presage a resumption of terrorism on a major scale. Greek and British officials expect all-out attacks by 1 October, when the British plan is to be implemented. These attacks may include an attempt on the life of the Turkish representative appointed to advise Governor Foot or violence against Turkish Cypriots in an effort to gain prompt UN intervention to "restore peace" on Cyprus.

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FRENCH CONSTITUTIONAL REFERENDUM Page 8

The new French constitution is virtually assured of approval on 28 September by a substantial majority of voters in metropolitan France, where most political leaders are rallying to support it; in tropical Africa, where the option of independence has won it wide backing; and in Algeria, where the army is expected to get out a favorable vote. Most of the traditional parties and the recently organized political groupings are now maneuvering with an eye to parliamentary elections which probably will be scheduled for November.

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PART II (continued)**ITALIAN GOVERNMENT PROBLEMS Page 9**

When the Italian Chamber of Deputies convenes on 16 September, Premier Fanfani's shaky coalition may be threatened by a financial scandal which allegedly involves members of his own Christian Democratic party. Fanfani is depending on his diplomatic initiatives in Middle Eastern affairs to bolster his government's prestige, but possible defections from right-wing Christian Democrats who object to his socio-economic reform program could deprive him of his present three-vote majority and force him to seek broader parliamentary support. [REDACTED]

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CHILE'S PRESIDENTIAL CHOICE Page 10

Prominent Chilean industrialist Jorge Alessandri, who won a slim plurality over leftist candidate Allende in the 4 September presidential election, will probably be ratified by the Chilean Congress on 24 October. He hopes to solve Chile's long-standing economic difficulties by a program of economic austerity and by restoring competitive enterprise with a minimum of state intervention, but will probably require substantial foreign aid. [REDACTED]

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THE ABORTIVE MILITARY COUP IN VENEZUELA Page 12

The attempted military coup in Venezuela on 7 September failed in part because the civilians' defense against a return to military rule was well organized and most of the divided armed forces continued their support of junta president Larrazabal. An effective general strike on 8 September, in which the Communists were particularly active, further demonstrated civilian strength. The military may still unite for a showdown, if it feels its role in the government is further endangered or if the junta becomes a captive of periodic mob action. [REDACTED]

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PART III**PATTERNS AND PERSPECTIVES****BLOC ECONOMIC ACTIVITY IN INDONESIA Page 1**

Sino-Soviet bloc assistance to Indonesia has been marked this year by Djakarta's activation of the long-standing Soviet \$100,000,000 economic credit, a Chinese Communist \$40,000,000 loan, and an arms deal possibly amounting to as much as \$200,000,000. The aid is in the form of essential items, such as rice, textiles, ships, and industrial machinery, and also provides for technicians, including military specialists. Bloc

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PART III (continued)

trade promotion activities, reinforced with liberal credit offers, probably will result in an increase in bloc-Indonesian trade for 1958 above the 1955 peak of \$74,000,000. [REDACTED]

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ISRAEL AND THE MIDDLE EASTERN CRISES Page 4

Israel has reacted to the Middle East's latest crises with intensive diplomatic activity including consultations with French, British, and Italian government leaders. Israel is seeking late-model armaments and a guarantee of Israel's territorial integrity. Israel fears that Nasir's influence may be extended over Jordan and Lebanon. Concern over such encirclement might lead the Israelis to take a military initiative at a time and place of their own choosing. [REDACTED]

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POLISH ECONOMIC DEPENDENCE ON THE BLOC Page 7

The Soviet bloc accounted for 59 percent of Poland's foreign trade in 1957, a figure which probably will not change significantly during the next two years. The extent of Warsaw's ties with the bloc puts the Soviet Union in a strong position to influence Polish actions. Basic political concessions probably could not be forced on the Polish Government through economic means alone, however, since Poland after first suffering considerable losses could reorient its economy from the bloc to the West. [REDACTED]

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BRAZIL'S FINANCIAL SITUATION Page 10

Brazil has undertaken a number of emergency measures in recent weeks designed to head off a foreign exchange crisis in 1959. Even if these measures are fully carried out, Brazil will continue for some years to suffer severe balance-of-payments difficulties. These difficulties result from its continued dependence on the fluctuating coffee market for 60 to 70 percent of its exports and the increasing demands of its booming industrial complex for imports of oil, machinery, and parts. Repayments on foreign loans will require 15 to 20 percent of export earnings for the next several years. [REDACTED]

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NIGERIA'S PRE-INDEPENDENCE PROBLEMS Page 13

The African leaders of the British colony of Nigeria who will meet with British representatives in London in late September have been pressing for Nigeria's early independence within the Commonwealth. They have unilaterally set 2 April 1960 as the date even though the country still lacks national unity.

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PART III (continued)

The London conferees will also consider the reports of commissions which have been studying the colony's financial and political problems.

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PART I

OF IMMEDIATE INTEREST

TAIWAN STRAIT SITUATION

Bloc Political Moves

The increasingly belligerent statements of top Chinese Communist leaders and Khrushchev's blunt warning to the United States during the past week were intended to serve notice that the Sino-Soviet bloc is prepared for a showdown over the offshore islands. Bloc leaders are probably confident, however, that their tactics will enable them to achieve progress toward political goals without major hostilities.

Premier Chou En-lai, in agreeing on 6 September to a resumption of talks with the United States on the ambassadorial level, reaffirmed Communist China's "absolute right" to take the "necessary military action" against Chinese Nationalist forces on the offshore islands. On 7 September politburo member Peng Chen declared at the largest mass rally ever held in Peiping that China is "determined" to take Taiwan as well as the offshore islands.

In the sharpest warning to date from Communist China, the People's Daily stated on 9 September that convoying activity by American forces will place the United States in a "most precarious situation involving direct armed conflict with China at any moment."

Khrushchev's letter of 7 September to President Eisenhower--the first official Soviet pronouncement on the present Taiwan Strait crisis--contained the strongest statement of So-

viet support for the Chinese Communists to date. After pointedly warning against the danger of miscalculation, the Soviet premier declared: "An attack on the Chinese People's Republic ... is an attack on the Soviet Union." Although he did not specify the conditions under which the Soviet commitment would take effect or its precise form, the language of the letter appears to pledge the USSR to assist Peiping with direct military support if the crisis develops into a major military action.

Chinese Communist officials, in conversations with Asian diplomats, have also contributed to the picture of strengthened confidence which the bloc is presenting to the world. 25X1

These Soviet and Chinese moves, while calculated to discourage expansion of American military support of the

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Nationalists, are also intended to assist attainment of political objectives. In particular, the Communists probably feel that by further stimulating apprehension throughout the world over the prospect of large-scale hostilities, America's allies and neutral governments may be induced to bring pressure on the United States to avoid actions which might lead to a large-scale clash.

Bloc leaders apparently are seeking to secure a greater voice for Communist China in world affairs and its acceptance by other states as a "great power." Other Communist political goals are to diminish American prestige, discredit American policy toward China, and to demoralize and weaken the Nationalist regime in order to lay the groundwork for eventual acquisition of all Nationalist-held territory.

Sino-American Talks

Chou En-lai stated on 6 September that Peiping is ready to resume the ambassadorial talks suspended last December. Two days later Mao Tse-tung made a firmer commitment to resume the talks, and Ambassador Wang Ping-nan has left Peiping to return to his post in Warsaw, evidently prepared to begin negotiations.

The Chinese decision has been underplayed in the Communist press, indicating that the Chinese leaders intend to sustain the atmosphere of crisis throughout China and maintain military as well as psychological pressures during the prospective negotiations.

Communist China at the talks will probably demand the withdrawal of Chinese Nationalist

troops from the offshore islands, particularly the Kinmen and Matsu islands. Peiping's propaganda stresses the "immediate threat" posed by these two island groups and places Taiwan and the Penghus in the category of territory which will be "re-stored sooner or later," suggesting that the Taiwan issue will not be pressed as forcefully at this time.

Peiping's declaration on 4 September extending its territorial waters to a distance of 12 miles was intended to emphasize the proximity of the Kinmen and Matsu groups to the mainland; both are well within the new limit.

The Chinese Communist negotiator will also propose that the discussions consider such questions as "American provocations" and "invasion" of territorial waters. In any event, Peiping will try to gain concessions, but will probably refuse to agree to any declaration or commitment which would compromise its position that the "liberation" of Taiwan, as well as the offshore islands, is an "internal" problem.

If the negotiations fail to progress, the Chinese Communists may propose that the ambassadors confine their efforts to a preliminary airing of views and the establishing of ground rules, and demand that substantive negotiations be transferred to the foreign minister level or to a heads-of-government meeting with Chinese Communist participation. Khrushchev hinted on 7 September that he may call for high-level negotiations by the United States, the USSR, Communist China, and "other countries" on ways of resolving the crisis through "common efforts."

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Peiping's ambassador in Warsaw, Wang Ping-nan, will continue in the role assigned to him in 1955 as negotiator for the Chinese side. A protégé of Chou En-lai, Wang is considered one of Peiping's top diplomatic technicians and has been used for many years as a contact man with foreigners.

Military Developments

The Communists could concentrate about 100 torpedo boats near the offshore islands within 48 hours. Landing craft have been collecting in the strait area which, in conjunction with the 5,000 or more junks already present, give the Chinese Communists the capability to quickly assemble sufficient sea lift for an assault on the offshore islands.

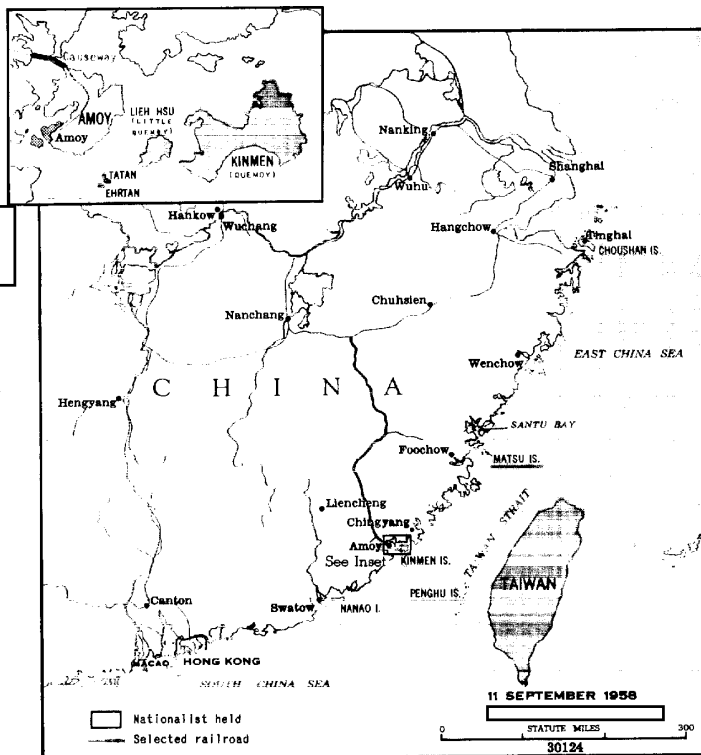
On 8 September 12 MIG's clashed with 12 Nationalist F-86F jets

Nationalists claim that five MIG's were shot down and two were damaged in the resulting engagement with one F-86F damaged. Although some F-86's are now equipped with Sidewinder air-to-air missiles, they were not involved in this combat.

Bombardment of the Kinmen Islands group was light on 5, 6, and 7 September, but the Communists fired about 50,000 rounds on 8 September in what they termed a punitive bombardment; the firing continued through 11 September but at a reduced level. Command and supply facilities and US-escorted Nationalist convoys continued to be the principal targets for Communist fire.

Nationalist Developments

Many high-level Chinese Nationalists fear that any renunciation of the use of force in the Taiwan Strait area by Peiping and Washington would indefinitely defer a showdown fight with the Communists which they have anticipated might grow out of the offshore islands situation.

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These Nationalists have been dismayed by the American offer to resume negotiations with Communist China, and they may try to take provocative actions, such as air attacks on Communist airfields and artillery positions, in an attempt to expand the area of conflict to the mainland.

Taipei's public line contends that a Communist assault on the offshore islands is imminent. An indication that the real estimate of the Foreign Ministry differs has been revealed by the Nationalist military attaché in Ankara. He told the American naval attaché there that the Foreign Ministry had informed its embassies that Communist intentions regarding the offshore islands were political rather than military.

Chinese Nationalist handling of the resupply convoys to the Kinmens on 7 and 8 September was marked by lack of coordination and preparedness at the beaches by the Kinmen Defense Command. Neither convoy unloaded all of its supplies, and an LSM was lost from the second convoy. No smoke screen was laid to shield the landing ships on the beach, and counterbattery fire suffered from improper positioning of Nationalist guns as well as lack of precise knowledge of the Communist gun positions.

Another major resupply attempt was made on 11 September, when two convoys were sent from Taiwan. The first, consisting of an escort vessel, two tugs, and three landing ships, successfully evacuated wounded, but the second convoy, which was to land supplies, was driven off by artillery fire from the mainland.

Supplies now available on the Kinmens are adequate for an

estimated 30 to 60 days in major items. There are no critical shortages yet, and damage to Nationalist supply dumps by artillery fire has been negligible. The Nationalists have initiated air drops but their logistical capability is insufficient to resupply the Kinmens by this means.

Free-World Reaction

Free-world reaction to recent developments in the Taiwan Strait situation was predominantly one of relief at the prospect of negotiations, although there was no expectation that any permanent solution would be achieved. Chou's offer to negotiate was attributed by many Western observers to US "firmness," but there continues to be strong opposition to any American military action to preserve the status quo of the islands. The threatening tone of Khrushchev's letter to President Eisenhower was roundly condemned.

The British Government appears increasingly apprehensive at the prospect that the United States intends to defend the offshore islands, as most influential British opinion doubts their importance to free-world security. Opposition leader Gaitskell, assuming emphatic Labor and Liberal opposition to American policy, believes the government may have serious trouble in holding its own supporters.

Comment from other NATO countries has generally been favorable, and Greek, Turkish, and West German officials have approved the firm line taken by the United States as necessary to free-world security.

In line with President Nasir's accusation of "direct aggression" by the United States, the Cairo press continues to support Peiping's case, holding

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the United States responsible and giving Khrushchev's warning full play.

Southeast Asian governments have reacted with moderation and along expected lines. South Vietnam and the Philippines have expressed the hope for continued American firmness. Burma has drafted a policy statement deploring the use of force in the strait as a violation of the Five Principles, and has privately indicated that it welcomed resistance to further Chinese Communist expansion. Indonesia, declaring it was "not neutral" on the China issue, has reasserted its recognition of Peiping. Cambodian Prince Sihanouk, without committing his country, has acted as a publicist for the Chinese Communist leaders' statements.

Indian Prime Minister Nehru on 7 September reiterated support for Peiping's claim to the offshore islands, but urged that the matter be solved peacefully. Several leading Indian papers have criticized Peiping's bellicosity.

The prospect of resumed ambassadorial talks was warmly applauded in Japan, although Foreign Ministry sources are pessimistic over chances of agreement. The Tokyo press criticized Khrushchev's letter to President Eisenhower as "menacing, unrealistic, and unhelpful."

UN Representation Issue

Prior to the present crisis in the Taiwan Strait, a majority of UN members seemed ready to keep Taipei in the Chinese seat at the General Assembly session

opening on 16 September. Recent events, however, may lead many members to reassess their policies in order to bring UN influence to bear on the situation.

Peiping's previous attempts to gain China's seat in the UN have met with little response, largely because no formula for the future of Taiwan has been presented which is sufficiently attractive to weaken Western support for Taipei. Nationalist China's seat in the UN has been upheld for the past six years by the moratorium device--which postpones substantive discussion of the question and requires only a simple majority vote. Most UN members, however, believe Peiping must eventually be admitted and have supported the moratorium largely on grounds of expediency. Taipei's majorities have decreased each year.

At this session, India for the third time will ask the General Assembly to discuss the issue substantively. An actual vote on which of the two Chinas should be seated would require a two-thirds majority--which neither Taipei nor Peiping seems at this point likely to attain. Such a vote, however, would require UN members to choose openly for the first time between the two governments.

Even if the General Assembly should support Taipei at the beginning of this session, it could reopen the question at any time. Nationalist China's UN membership could be seriously jeopardized by any action by Taipei to provoke hostilities involving the United States or a diplomatic offensive by Peiping, particularly if in response to any UN efforts to ensure peace in the area.

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MIDDLE EAST DEVELOPMENTS

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Lebanon

Despite the easing since 4 September of the rebel-enforced general strike, most opposition forces in Lebanon still stress that the rebellion will continue until their demands for political "reform" are met by the government to be installed by President-elect Shihab on 24 September. The gradual lifting of the strike reportedly resulted from Shihab's agreement to several opposition demands, possibly including appointment of Tripoli rebel leader Rashid Karame as prime minister in the next cabinet. The opposition also insists that Shihab after inauguration take steps to amend the constitution to limit presidential powers.

Factional squabbling has broken out among the rebels, primarily as a result of unwillingness on the part of the extremists to cooperate with the rebel majority in making a gesture which would enable Shihab to expedite the withdrawal of American troops.

pro-Chamoun extremists may attempt to prolong the crisis in order to prevent the withdrawal of American forces. By the recent formation of the National Liberal party, Chamoun has created a personal political organization with which he hopes to continue participation in Lebanese affairs after he leaves the presidency on 23 September.

In talks with UN Secretary General Hammarskjold, Nasir has in effect indicated he would not be willing to meet King Husayn's desire for assurances of noninterference in Jordan before Husayn agrees to the withdrawal of British troops. Cairo has taken the position that the UN General Assembly's Middle East resolution on 21 August was intended essentially to expedite the withdrawal of foreign troops, and has warned that severe tensions would reappear if withdrawals were not speedily arranged. Jordanian officials consider that the Hammarskjold mission has failed, and it is likely that Jordan will again place its complaint against UAR interference before the next UN General Assembly session.

Arab League

The Moroccan and Tunisian decision to join the Arab League gives Nasir another significant

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victory. Membership in the Egyptian-dominated league will now include all independent Arab states--including those which in the past have opposed him. The UAR President appears increasingly to be without public challenge in the Arab world.

Iraq

The Egyptians are striving to increase their influence in the Iraqi armed forces. Increased Egyptian influence in the armed forces would presumably be exploited to strengthen the position of the faction led by Deputy Prime Minister Arif which favors Iraqi membership in the UAR. Those Iraqis led by Prime Minister Qasim who favor a more independent association with the UAR would probably eventually seek a direct arms deal with the Soviet bloc. Meanwhile, dissatisfaction among some army officers with the program of the Iraqi revolutionary regime has given rise to reports of plotting to organize a counter-coup. The regime is also beset by increasing unemployment and labor unrest.

Israel

An Israeli Foreign Ministry spokesman has informed the Amer-

ican Embassy in Tel Aviv that there has been a steady increase in Egyptian reconnaissance and sabotage by both regular forces and terrorists in Israel since the Iraqi coup in mid-July. In publicizing the new Egyptian infiltration, Israel may be building a case to support its requests for arms aid.

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Sudan

UAR relations with the Sudan are still strained as a result of the controversy over the Nile waters. Nasir reportedly stated he intends to go ahead with plans for the high dam at Aswan, for which he said he might ask Western assistance, and will not consult the Sudan. He feels unilateral action is justified as a result of what he considers the recent Sudanese abrogation of the Nile waters agreement of 1929. The Sudan maintains it is not bound by an agreement on division of the waters signed before its independence; in July it began diversion of some of the flow for use in a local irrigation project.

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PART II

NOTES AND COMMENTS

USSR SCHEDULES 21ST PARTY CONGRESS FOR JANUARY

The Soviet party central committee decided in a plenary session on 5 September to convene an "extraordinary" 21st party congress on 27 January. The only item on the agenda, discussion led by Khrushchev on the goals for the economy under the Seven-Year Plan (1959-65), will be based on a set of "theses" to be published prior to the congress. Although long provided for in the party statutes, an "extraordinary" congress is unique in Soviet history. The forthcoming session has probably been designated as "extraordinary" because it has been called to discuss one special topic instead of an array of problems facing the party. According to the statutes, an ordinary congress would have been convened not later than February 1960.

The only other business announced by the one-day plenum was the removal of former Premier Bulganin from the presidium.

The party congress will not necessarily be limited to its agenda. It may change the membership of the central committee, which in turn may affect the composition of the party presidium and secretariat in such a way as to further Khrushchev's political dominance.

Besides the failure to publish the plan before now, there

are other suggestions of high-level conflict over the growth capabilities of the USSR. This might explain the decision to issue more flexible and tentative "theses" for public discussion prior to the party congress rather than the traditional "draft directives." This possible conflict may involve the rate of improvement in living standards. If the 1955-57 annual rate of increase in total investment (13 percent) is not maintained, as seems likely, the continuation of an annual 10-percent rate of industrial growth--which the leadership appears determined to maintain--may require that the necessary additional funds, materials, and labor for industrial expansion be diverted from housing and other consumer-oriented investment. Khrushchev may bow to this necessity in order to "catch up" with the West more quickly.

The "theses" may put forth new proposals, possibly including increased authority over investment funds for the regional economic councils, modifications of prices and pricing systems, and perhaps additional changes in agricultural organization. In any case, one theme of the congress will be the continuing high rate of socialist economic growth compared with that of capitalism, and particularly the fast rate "at which the USSR will be overtaking the United States" in the next seven years. K1

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EAST GERMANY CONCERNED OVER REFUGEE FLIGHTS TO WEST

East German officials are greatly concerned over the mass refugee flights to West Germany which have continued despite severe control measures in East Germany and East Berlin. The current exodus--highlighted by the escape of leading German intellectuals--apparently results from the relentless implementation of new hard-line policies in the cultural and economic fields and an apparent belief that no diminution in political oppression or improvement in living standards is in the offing.

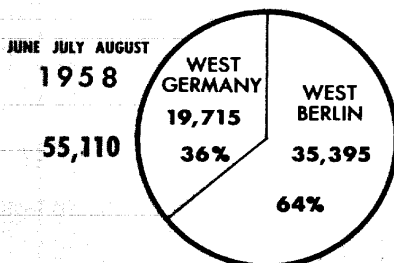
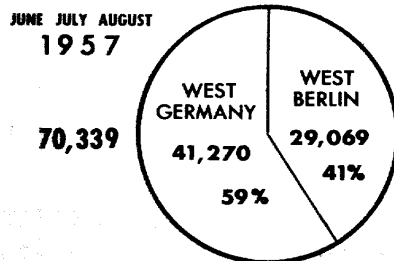
Some 4,300 refugees reached West Berlin during the week ending 2 September--a seasonal peak--while in approximately the same period more than 1,800 fled over the interzonal border to

West Germany. This brings the total number of escapees to more than 140,000 during the first eight months of 1958; more than two million persons have fled East Germany since mid-1949. The total number of refugees since 1 January falls below the 1957 figure of 166,000 for the corresponding period but includes a much higher proportion of essential "brainworkers"--doctors, scientists, technicians, and teachers--many of whom are reported to be party members. Moreover, this total includes more than 10,000 males of military age--the equivalent of one line division.

As East German authorities have intensified security measures along the interzonal border between East and West Germany, a much larger proportion of escapees have fled through West Berlin than in past years. In August almost 65 percent came into this city, whereas until this summer approximately 50 percent crossed the interzonal frontier.

The East German Government believes it cannot permit the country "to bleed to death through the refugee flow," but East German officials appear to be in a quandary over what measures to adopt. Party boss Walter Ulbricht reportedly favors taking even harsher steps to cut down on travel between East and West Berlin and is said to have discussed the matter with Khrushchev, who allegedly was unwilling to go along with his proposals.

American officials in Berlin believe still more rigorous control measures may be taken by Pankow to halt travel between East Germany and Berlin. East German authorities have already imposed a ban on rail travel to stations within 31 miles of the

REFUGEES REPORTING TO WEST BERLIN AND WEST GERMANY

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city, and travelers reportedly must now secure permission of local police to go to Berlin.

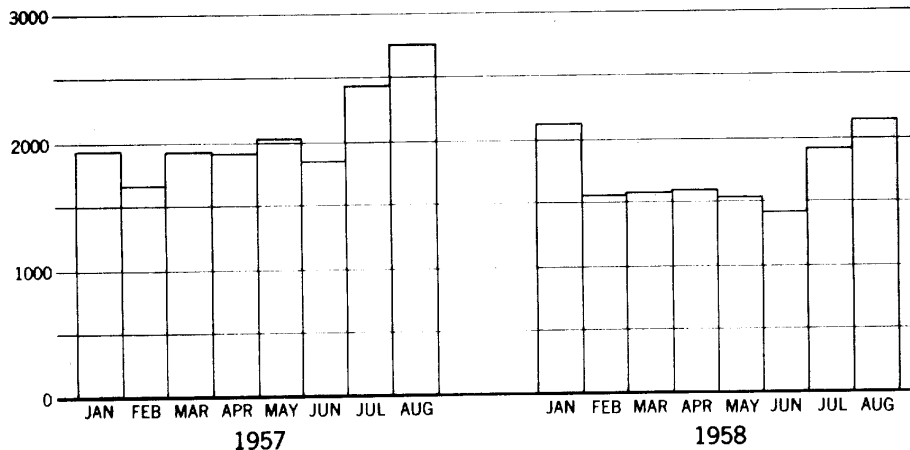
Some East German party circles may believe that allowing potential dissidents to escape to the West provides a safety valve which may prevent a recurrence of such explosions as the 17 June 1953 uprising. Nonetheless, the Council of Ministers is reported to have been considering a modification of present hard-line policies concerning private industry, apparently with a view to removing some of the causes for refugee flights.

All West German political parties have seized the refugee issue as evidence of continued political oppression in East

**LEAKAGE OF BRAINS**-- FROM DIE WELT, 20 AUGUST 1958

Berlin and East Germany for the purpose of directing world opinion to the "German question." Leaders of the major parties are considering sponsoring a resolution on this subject when

**EMIGRATION FROM THE SOVIET ZONE
AND THE SOVIET SECTOR OF BERLIN**



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the Bundestag reconvenes on 1 October for its traditional opening session in West Berlin. Such a resolution would emphasize the injustice that forces the refugees to leave their homes. A part of the West German press has demanded that Bonn bring the issue to the United Nations. Christian Democratic officials, however, feel it is important not to promote further unrest in the Soviet Zone.

The continuing heavy influx of refugees into West Berlin has strained reception facilities, and some West German states have become reluctant to accept their refugee quotas. In response to appeals from West

Berlin authorities, Bonn has ordered evacuation flights of refugees out of Berlin increased

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The sudden sharp drop in the number of refugees entering West Berlin in the week ending 9 September--3,128, a decrease of 1,204 from the preceding week--may have been due in part to the spreading in East Germany of news of crowded conditions in West Berlin reception centers.

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CZECH WAGE REFORM

A campaign is under way in Czechoslovakia to popularize wage reform measures and work norm revisions which will affect approximately two million industrial workers. The regime hopes to lower costs and increase industrial output by raising labor productivity proportionately more than wages and by redistributing wage funds among workers. The reform, to be fully in effect by 1960, is closely allied to the reorganization of industry and planning now under way. While the regime plans to institute reforms cautiously, any rise in work norms is bound to antagonize labor and could hamper the regime's program for continued economic expansion.

Czechoslovakia will suffer a declining rate of growth for industrial production unless extraordinary measures are taken to increase labor productivity. Czech wage funds have advanced faster than labor productivity

in recent years, but the regime now plans to reverse this ratio by cutting into the worker's share of the growing gross national product and diverting these funds to capital investment. Because of the relatively few additions to the labor force, the regime has for some time drawn on marginal labor--for example, women and pensioners, who have relatively high absentee rates--but such labor raises production costs.

During the past year, as part of a scheme for reorganizing industry, administrative personnel have been dismissed in large numbers and salary schedules for such personnel as were retained, as well as for technicians and engineers, have been revised: basic payments were raised and bonuses drastically curtailed. The average take-home pay is now roughly the same as previously, but the total number of workers is fewer, with a resultant lower total

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salary bill to the regime. It was hoped that discharged personnel could be channeled into production jobs where they were needed, but in this the regime admits only limited success to date.

The wage reform for industrial workers, originally to be experimentally introduced in selected enterprises next month but apparently already under way, will similarly raise basic payments but reduce bonuses, from about 50 to 15 percent of take-home pay without lowering average wages, according to the regime.

An accompanying comprehensive change in the system of job classifications and work norms will, however, lower take-home pay for some workers while it raises that of others, because present wage schedules are "out of date" and the individual workers are often compensated far above the value of work performed. In addition, the reform will re-evaluate wage schedules according to the

branch of industry in order to ensure greater compensation for workers in "priority" industries such as mining and metallurgy.

Even though the absolute wages of most Czech workers are not lowered, as the regime claims, workers will in the long run be working more for the same amount of money under the system of higher work norms, and this gradual speed-up will become increasingly apparent to the workers. Reportedly, passive resistance has already occurred in one factory in Pilzen, where elements of the wage reform were introduced and where reassigned administrative personnel were obliged to work for wages considerably below their previous salaries.

The combination of an unpopular increase in norms and a knot of disgruntled former white-collar workers in the factories poses a threat to regime hopes of increasing production by these reforms.

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CAMBODIA

Premier Sihanouk seems likely to become even more uncompromising than in the past in handling Cambodia's border and other disputes with neighboring South Vietnam and Thailand. Sihanouk is en route to New York for the regular session of the United Nations General Assembly, where he may try to portray "small, neutral" Cambodia as the aggrieved victim of the "militant" Vietnamese and Thais. Phnom Penh's ignoring of an offer by Saigon to remove the controversial boundary marker erected by Vietnamese troops last June inside the old Cambodian frontier indicates

Sihanouk is unwilling to dispose readily of this handy symbol of Vietnamese "expansionism."

Student demonstrations before the Cambodian Embassy in Bangkok following the breakdown on 4 September of Thai-Cambodian negotiations attest to Thailand's hardening attitude toward Cambodia since Phnom Penh's recognition of Peiping last July. The Diem government in Saigon has long been convinced that attempts to reach an understanding with Sihanouk are useless. Its offer to remove the boundary marker and to fix the common frontier by a joint survey was intended

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essentially to deflate any Cambodian charges at the United Nations of Vietnam's unyielding attitude.

Despite Sihanouk's praise of the Peiping regime's economic progress and general policies, he remains opposed to the spread of Communist influence within Cambodia. However, subversive inroads are already perceptible as a result of Cambodia's economic and political contacts with the Sino-Soviet bloc. For example, the Cambodian Information Ministry and the local press have become orientated to the left, while Communist influence among the nation's youth and the influential Overseas Chinese population is a growing problem for the government.

There is considerable danger that Sihanouk may accelerate this trend by attempting to use Peiping as a counterweight to Saigon and Bangkok.

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SOUTH KOREAN LEADERSHIP

The relatively moderate reaction in South Korea to the Taiwan Strait developments contrasts with the lively interest shown in the Indonesian situation last May, when government-staged demonstrations called for "volunteers" to aid the insurgents. The present attitude may in part result from President Rhee's waning dynamism and gradual withdrawal from day-to-day politics. The development of a critical void in the administration leadership is further suggested by the possibility that Rhee's chief political lieutenant, Yi Ki-pung, may have to step down as leader of the governing Liberal party because of poor health.

Yi's political effectiveness has been at a low ebb since May and a recent rest apparently has failed to restore his physical and mental vigor. Should Yi be forced to withdraw, it might set the stage for an internal

power struggle which could reduce the possibility of an orderly and constitutional succession when Rhee dies.

The lack of leadership evidenced by the uncoordinated Liberal party efforts to overcome Democratic party obstructionist tactics in the recent National Assembly session may have resulted in part from Yi's poor health. Also, he has not assumed the added responsibilities necessary to fill the gap left in the Liberal leadership last June when a number of his experienced subordinates were replaced by less able politicians, as the result of factional maneuvering.

Rhee's numerous purges of subordinate political leaders in the past will make it difficult to find a qualified successor to Yi. Most of the possible candidates are obviously incompetent or have made themselves

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persona non grata to Rhee by displaying minds of their own. Ambassador Dowling feels the only obvious alternatives to Yi are aged incompetents under whose leadership party organization would soon deteriorate.

Korean politicians are not noted for their devotion to

party and, with Yi gone, many of his followers probably would seek to make new political alliances. His withdrawal also could tempt many administration politicians to use the powers of the government to suppress the opposition. [REDACTED]

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NORTH AFRICA

Tunisia's decision to join the Arab League, following similar action by Morocco, was more an effort to avoid isolation than a gesture of North African solidarity. A meeting from 30 August to 1 September of the Maghreb Secretariat--composed of Algerian, Moroccan, and Tunisian political leaders--indicated only superficial harmony among North Africans. Morocco and Tunisia are committed to support Algerian independence, but are beset by internal difficulties and apparently have given little more than lip service to their agreement of last June to coordinate foreign policies.

Under strong pressure from the left wing of the dominant Istiqlal party, the moderate Moroccan Government was apparently persuaded during the recent visit of Iraqi Foreign Minister Joumard of the advantages of Arab solidarity.

The Moroccan decision to join the league was made without consulting Tunisia. President Bourguiba is annoyed with Morocco's action but nonetheless considered that Tunisia could not afford to remain outside the league. He seems to hope Tunisia can exert a moderating influence, a possibility

which might be enhanced if Tunisia is elected to the UN Security Council. Bourguiba has been outspokenly anti-Nasir and his relations with the UAR probably will not improve materially with league membership, as he will continue to combat Egyptian subversion in Tunisia.

The Maghreb Secretariat meeting in Tunis was apparently only superficially concerned with major policy issues. It seems to have directed its efforts primarily toward drafting a final communiqué denouncing the French constitutional referendum and announcing agreement to collaborate during the forthcoming UN debate on Algeria. It made no progress toward forming a Maghreb Consultative Assembly, desired by the FLN, and scheduled another meeting for Rabat on 6 October.

Probably dissatisfied with the lack of substantive progress at Tunis, the FLN may be weighing the possibility of overriding Moroccan-Tunisian objections and declaring its executive committee--reorganized along governmental lines some months ago--to be the provisional government of an Algerian republic. It would then seek membership in the Arab League. [REDACTED]

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CYPRUS

EOKA's announcement on 7 September of the termination of its month-old, self-imposed "truce" on Cyprus follows a recent increase in clashes between EOKA and the security forces. It may presage a resumption of terrorism on a major scale. Both Greek and British officials expect all-out attacks on the British by 1 October when Turkey's official representative, appointed to advise Governor Foot as the first step in implementing the new British plan for Cyprus, is expected to arrive in Nicosia. Turkish participation in the administration of the island--even on a consultative basis--is violently opposed by Greek-Cypriot leaders as well as the government of Greece as a move toward partition and violation of the Treaty of Lausanne.

In addition to stepping up its attacks on the British, EOKA may launch attacks against Turkish Cypriots or make an attempt on the life of the Turkish representative. Attacks against the Turks would embroil EOKA in fighting on two fronts, but the Greek Cypriots might deem them necessary in order to obtain prompt UN intervention to "restore peace" on Cyprus. Archbishop Makarios on 28 August called on the UN to intervene for that purpose. An attempt

on the life of the Turkish representative or new intercommunal violence on Cyprus would also lead to a severe crisis in relations between Greece and Turkey.

Greek Foreign Minister Averoff favors breaking diplomatic relations with Britain and Turkey and possibly withdrawing from NATO if the British plan is implemented. Averoff has been warning for some time that Greece must make "drastic changes" in its foreign policy if the Cyprus issue is not resolved along lines acceptable to Athens, but his views may be modified by Premier Karamanlis.

Governor Foot recently visited London for discussions which concerned in part the possible return of the exiled Makarios to Cyprus. Makarios has previously been forbidden to return until all violence ceased on Cyprus for an extended period of time. A change in the British attitude toward his return would be based on the hope that his presence could be used to restrain EOKA. Recent statements by Makarios indicate, however, that he remains adamant in his opposition to the British plan for Cyprus, and his return to the island at this time might not lead to an end of violence.

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FRENCH CONSTITUTIONAL REFERENDUM

The new French constitution is virtually assured of approval in the 28 September referendum as most political leaders in metropolitan France and France's overseas possessions rally to back it. Socialist leader Guy Mollet's plea for broad support to thwart any

rightist claim to "an exclusive mandate to build a new France" is expected to swing his party, which will adopt an official stand at its 11-14 September party congress. Most of the leaders at the Radical party congress, meeting during the same period, are also expected to back De Gaulle.

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The Popular Republicans have already voted to back the constitution, and most right-of-center leaders, despite reservations, will do the same. Extreme rightist Poujade and his Peasant party ally Antier, however, are opposed. Practically all of the dozen or so new political groups support the constitution except Daniel Mayer's leftist Union of Democratic Forces and General Chassin's rightist organization of "Committees of Public Safety," which may have ties with Poujade and Antier.

In view of De Gaulle's last-minute revisions in the text of the constitution to recognize the right of overseas territories to opt for independence, it now appears likely that the territories will vote favorably. A large favorable majority seems assured in Algeria despite De Gaulle's deliberate vagueness concerning the area's future, which has disgruntled many settlers, and despite continuing FLN efforts to force Moslem abstention.

The Communists will provide the most active opposition, but

minority leaders in both Socialist and Radical circles are also expected to campaign against De Gaulle. They argue that the referendum has become a plebiscite on De Gaulle rather than on the merits of the proposed constitution, which they consider too authoritarian. Whether they succeed in rallying a sizable negative "republican" vote or not, Pierre Mendes-France, Christian Pineau, and Daniel Mayer will probably form the nucleus for a new political grouping in the subsequent parliamentary elections. They will try to consolidate the non-Communist left in the hope of developing a loyal opposition.

On the right, three of the new political formations, including Information Minister Soustelle's Union for the Restoration of France, have combined under the leadership of the secretary of the Gaullist Social Republican party. They may seek to participate in the elections scheduled for November as a reincarnation of De Gaulle's Rally of the French People.

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ITALIAN GOVERNMENT PROBLEMS

When the Italian Chamber of Deputies convenes on 16 September, Premier Fanfani's shaky coalition may be threatened by a financial scandal which allegedly involves members of his own Christian Democratic party. Fanfani is depending on foreign issues to bolster his government's prestige, but may have to seek broader parliamentary support.

Finance Minister Preti, a Democratic Socialist, is pressing an investigation of "Bankers

Anonymous," a financial group which has been engaged for eight years in "administering" huge sums contributed by small investors who received from 30 to 100 percent interest on their investment. The Republican party--on whose abstention the government depends for its three-vote majority--charges through its newspaper that the treasury minister, a right-wing Christian Democrat, and a Catholic Action leader are also involved.

The Democratic Socialists and the Republicans seem to be

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Fanfani has been striving to build up his personal prestige

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The long-term prospects for Fanfani's government will depend to a considerable extent on the outcome of three political meetings this fall. The Democratic Socialist central committee meeting later in September will discuss the party's continued participation in the coalition. The Republican party congress in October will decide whether that party is now to join the government. The Nenni Socialist congress in November or December may consider the question of relations with the Christian Democratic party.

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difficulties by a program of economic austerity and by restoring competitive enterprise with a minimum of state intervention. Since Alessandri failed to win by a majority, the Chilean Congress must choose on 24 October between him and

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Socialist candidate Allende, but his formal election by Congress is generally taken for granted.

Senator Alessandri, a 62-year-old civil engineer and son of one of Chile's best known



ALESSANDRI

presidents, is a former minister of finance with a long record as a champion of economic liberalism and anti-Communism. He will probably make little change in President Ibanez' foreign policies.

assuring him an operating majority there. In addition, the returns in certain working-class districts indicate that a large sector of Chile's normally Marxist labor voted for Alessandri.

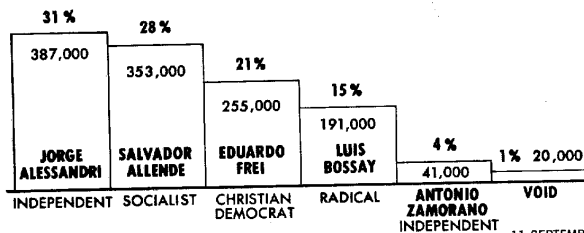
Alessandri faces serious economic problems, which stem mainly from the steady three-year decline in the price of copper--source of 65 percent of Chile's foreign exchange and much of its government revenue. The newly released figures for the 1959 budget, projecting a level of expenditure obviously inadequate for the country's needs, represent a frank admission of the inability of the government to finance a major portion of its total requirements.

Despite his own preference for free enterprise and economic self-help, Alessandri will probably have to ask for US aid. His first step is likely to be a request for help in consolidating Chile's

CHILEAN PRESIDENTIAL ELECTION RESULTS

50%
(OVER 50% REQUIRED FOR ELECTION)

TOTAL VOTE 1,247,000



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The election results give promise of greater political stability than any Chilean Government has enjoyed for some time. He seems likely to get the Radical party's support in Congress, thus

short-term debt abroad, which is now estimated at \$150,000,000.

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THE ABORTIVE MILITARY COUP IN VENEZUELA

The failure of a military coup attempt in Venezuela on 7 September demonstrates the effectiveness of civilian strength as a check against a return to military rule and continuing support by most of the divided armed forces for junta president Larrazabal. A general strike of 8 September, in which the Communists were particularly active, ended when the junta acceded to demands that the coup leaders be punished. Neither the civilian nor the military elements appear satisfied with the junta's handling of the situation. The armed forces may still face a showdown with civilian elements over control of the government, perhaps even before the scheduled November elections.

The abortive revolt was quickly suppressed, but fighting between civilians and the military rebels resulted in several casualties in Caracas. The action was led by officers allegedly involved with former Defense Minister Castro Leon, who was reportedly planning a coup at the time of his ouster from the cabinet on 23 July. The attempt climaxed a period of tension over the recent reassignment of the chief of the Combined Staff, a close associate of Castro.

The elaborate civilian organization, which called the strike on 8 September, has been developed since the ouster of

dictator Perez last January primarily to guard against the continuing threat of a military coup and to ensure the restoration of constitutional government. It includes political, student, and labor groups, some of which are armed and most of which can be mobilized rapidly for a general strike or similar display of force. The responsible leaders in this civilian structure, however, may not in the future be able to exercise control over the radical elements, which could convert the organization into an instrument of violence.

The armed forces, divided among themselves, have been reluctant to use force against civilians to bolster their waning political power, because such action would probably lead to widespread unrest or possibly civil war. The military may still unite for a showdown if it feels its role in government is further endangered or if the junta becomes a captive of periodic mob action.

Moreover, in the present atmosphere charged with tension and rumor, armed civilian groups might provoke serious incidents with the military, which is becoming a symbol of reaction in the public mind. Meanwhile, any breakdown in the political unity program, endorsed by all parties but now under considerable strain, is likely to encourage continued military plotting.

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PART III

PATTERNS AND PERSPECTIVES

BLOC ECONOMIC ACTIVITY IN INDONESIA

The Sino-Soviet bloc has extended liberal assistance to Indonesia this year, particularly a Soviet \$100,000 economic credit, a Chinese Communist \$40,000,000 loan, and an arms deal possibly amounting to as much as \$200,000,000. The aid is in the form of essential items, such as rice, textiles, ships, and industrial machinery, and also provides for technicians, including military specialists. Bloc trade promotion activities, reinforced with liberal credit offers, probably will result in an increase in bloc-Indonesian trade in 1958 to above the 1955 peak of \$74,000,000.

Economic Aid

The Soviet \$100,000 economic loan, offered first in 1956, was not accepted until early this year. In March and April, ten Soviet cargo vessels costing about \$11,500,000 were purchased under the loan and, subsequently, two tankers costing about \$3,300,000. Other Soviet commitments under the credit include a foreign exchange loan of \$25,000,000, textiles worth \$600,000, and possibly the sale of some fishing trawlers estimated at about \$12,600,000. A highway which has been surveyed by Soviet technicians may be constructed in Borneo at an estimated cost of \$8,000,000 for the machinery alone.

In addition to the \$100,000,000 loan, the USSR has of-

ferred to carry out a mineral and uranium survey for Indonesia and to exploit any deposits found. It has also offered to cooperate with Djakarta on a research program for developing peaceful uses for atomic energy and to aid the country's educational system with \$10,000,000 worth of projects. Indonesia is said to have discussed recently the purchase of \$15,000,000 worth of barges and dredging equipment from the USSR and Poland.

Aside from these offers of assistance to the Indonesian Government, Moscow has offered to extend unlimited credit with easy repayment terms to private organizations. As a result, a \$2,500,000 glass factory is under construction near Djakarta and another firm has signed a contract for the delivery of \$800,000 worth of electrical equipment.

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Of the \$40,000,000 economic aid offer from Communist China, \$11,200,000 is being used to import 20,000 tons of rice and 74,000,000 yards of textiles. The proceeds from the sale of these goods are to be used for meeting local construction costs incurred in the building of textile factories. The purchase of factory equipment is to be financed under the remainder of the Chinese credit. Peiping, in addition, has offered to purchase oil from the North Sumatran fields.

The European satellites also are contributing to the bloc's economic program in Indonesia. Poland contracted in June to deliver to Indonesia during the next three years 24 ships worth an estimated \$39,000,000, under a liberal 13-year credit with a 2-percent down payment. East Germany completed in June a \$7,900,000 sugar refinery at Jogjakarta, which, because of several breakdowns, is not expected to be in operation until 1959. Other East German offers of credit in the fields of mining, road building, shipping, and commercial air lines have been made.

Czechoslovakia is probably the most active of the European satellites in efforts to develop a wide variety of economic contacts in Indonesia. It has completed construction of a small enamelware factory in Djakarta and is financing under a five-year credit the Brantas irrigation canal project now under construction in east-central Java. A \$1,500,000 rubber-tire factory in Djakarta built by Czech engineers is scheduled to open soon. A \$4,900,000 contract for equipment to generate hydroelectric power was signed in April 1958 and additional contracts are expected to follow shortly. In addition to these projects, Prague has extended several other offers, in-

cluding construction of a \$25,000,000 thermopower plant, a \$6,000,000 power plant, and a \$4,500,000 tractor deal.

Arms Aid

The Communist bloc concluded arms deals with Indonesia early this year amounting to at least \$100,000,000 and possibly as much as \$200,000,000. The Indonesian Government has stated that its arms mission was given the authority to purchase up to \$250,000,000 worth of arms--\$50,000,000 for the army and \$100,000,000 each for the air force and the navy.

The army group apparently purchased about \$20,000,000 worth of hardware in Poland and Czechoslovakia. In 1957 the army and air force together purchased 4,000 jeeps from the USSR at a cost of over \$7,000,000.

The air force contingent met its requirements within the bloc--allegedly in Czechoslovakia--purchasing aircraft and supplementary equipment worth about \$63,000,000--about 35 MIG-17 jet fighters, 20 to 30 IL-28 jet bombers, 20 IL-14 transports, 20 MIG-15 jet trainers, and possibly some helicopters. 25X1
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about 130 are military specialists, and personnel will probably be continually arriving in the country. The bloc, in addition, is providing facilities for at least 50 Indonesian military personnel now training in Poland. 25X1

Technical Assistance

Concurrent with its military and economic aid programs,

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the bloc also is providing technicians to work on economic developmental projects as well as military specialists to assist in the assembly and maintenance of the arms being delivered to Indonesia. About 400 bloc personnel are now engaged in Indonesia, of whom

Bloc trade promotion activities in Indonesia are

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being effectively reinforced with offers of liberal credit to both government and private organizations. Bloc trade was small in 1957, however, amounting to only \$68,000,000, about 4 percent of Indonesia's total foreign trade. Communist China's share of the bloc's trade with Indonesia rose to about 78 percent last year. Trade with the USSR in 1957 was only about 1 percent of total bloc trade, but this trade has increased this year.

Trade agreements are being renegotiated with some of the

European satellites. One was signed with Czechoslovakia in May and another was concluded with Poland in August. Delegations from Communist China and North Korea are now in Indonesia to develop trade with Djakarta. North Vietnam recently purchased at least \$500,000 worth of Indonesian rubber for transshipment to Eastern Europe. It is probable that bloc trade with Indonesia in 1958 will rise above the previous \$74,000,000 peak recorded in 1955.

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ISRAEL AND THE MIDDLE EASTERN CRISES

Israel has reacted to the Middle East's latest crises with intensive diplomatic activity involving conferences between Foreign Minister Golda Meir and French, British, and Italian government leaders. This busy diplomacy reflects increased Israeli anxiety over the effect of events in Iraq, Lebanon, and Jordan on Israel's isolated position amid hostile Arab neighbors.

The Israelis apparently feel recent events have hastened an Arab-Israeli showdown. A settlement with UAR President Nasir seems as remote as ever, and the Israelis very likely assume that radical Arab nationalism, as symbolized and led by him, by its very nature must

eventually attempt an all-out assault on Israel. The prospect that such an assault would be better coordinated than in 1948, in addition to being waged with modern Soviet weapons, emphasizes the seriousness of Israel's problem. The travels of Mrs. Meir and Ben-Gurion have aimed at meeting this longer range contingency. They have sought essentially late-model armaments and a guarantee of Israel's territorial integrity.

Results of Israeli Diplomacy

In Paris, Mrs. Meir hoped to reconfirm close French-Israeli ties with the De Gaulle government and effect a possible alliance. Premier de Gaulle,

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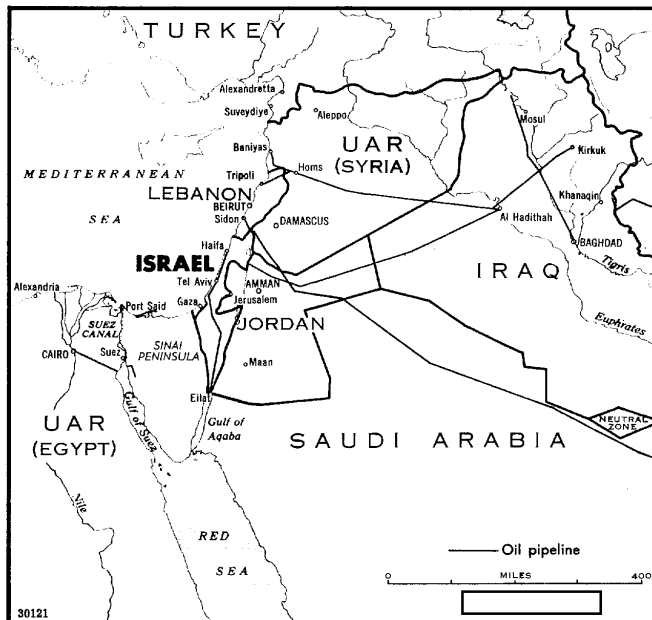
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however, reportedly wishes to de-emphasize the relationship between the two countries in order to facilitate his policy of seeking a rapprochement with the Arab states. The possibility of a formal French-Israeli alliance therefore probably is remote, but Israel may be able to obtain additional Vautour twin-jet aircraft from France.

Despite De Gaulle's reticence on political relations, a close relationship between the armed forces of the two countries very likely still exists. On 4 August, the subdirector for Levant affairs in the French Foreign Ministry, while telling an American official that French-Israeli relations had become "more reserved and objective," conceded that strictly military relations remained extremely close but that even working-level officials at the Foreign Ministry did not know exactly what form of agreement existed between the services of the two countries.

In London, Mrs. Meir apparently received some encouragement. Foreign Secretary Lloyd assured her his government no longer intends to suggest any Israeli territorial sacrifices as it previously had proposed in seeking to promote an Arab-Israeli settlement. Earlier, a British official stated that Prime Minister Macmillan had responded cordially but vaguely to recent overtures from Ben-Gurion for a "partnership" arrangement between the two governments.



An arms deal very likely was part of Mrs. Meir's price. Britain has agreed to sell Israel military equipment, including two submarines, and is considering supplying 55 tanks. The Israelis probably see in Great Britain a power which might well consider close cooperation with them as valuable to the protection of British interests in the Middle East. The on-and-off status of Israel's permission for British overflights of its territory en route to Jordan probably was in part an effort to obtain British concessions to Israel's needs.

Italian Prime Minister Fanfani, after his meeting with Mrs. Meir, spoke of his plans to promote negotiations between Israel and the UAR. The Israeli foreign minister may have encouraged him in order to establish a possible avenue of contact with Nasir.

Economic Considerations

There is also an economic aspect to recent Israeli diplomacy. The UAR has imposed severe restrictions on the

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passage of Israeli trade through the Suez Canal, and the Arab states as a whole cooperate in an economic boycott of Israel. This has prevented the Israelis from integrating their economy with that of the Middle East as a whole and has kept their ports from becoming commercial centers for the area. Israel accordingly has been forced to seek commercial partners abroad. A particular endeavor has been made to establish trade relations with African and Asian states, an effort to which the development of Eilat port on the Gulf of Aqaba and the maintenance of transit rights through the gulf are linked.

Israel sees another possible means of increasing its earnings by becoming a passageway for Middle Eastern oil bound for Europe. After Nasir blockaded the Suez Canal in 1956, the Israelis attempted to obtain Western support for construction of a 32-inch pipeline across Israel. During the recent crisis, the Israelis again seized on the apparent threat to establish oil routes as an argument for Western sponsorship of such a pipeline. They achieved partial success in late August, when two international banking firms reportedly agreed to lend \$15,000,000 toward completion of a 16-inch line linking Eilat and Haifa. Iranian oil, which Israel already obtains for domestic consumption, probably will be available for the new pipeline. Israel hopes European utilization of a trans-Israeli oil route would increase Western interest in its territorial integrity.

The Outlook

Israel, with a population of slightly over 2,000,000, ex-

ists amid an Arab Middle East of over 55,000,000 inhabitants. Nevertheless, the Israeli armed forces probably still could defeat the combined Arab forces in a localized conflict, although their advantage in training and leadership is being increasingly countered by the quality and quantity of the Soviet-bloc arms and training the UAR has received. The Israelis are fearful that as the Arab forces achieve proficiency in handling their new weapons, Israel's advantage will soon be overtaken.

Moreover, the expansion of Nasir's influence this summer contributes to Israel's conviction that it must also obtain new weapons and equipment. One of Foreign Minister Meir's principal tasks during her European visit in August was to lay the groundwork for such procurement. In London, she announced Israel's opposition to a Middle Eastern arms embargo on grounds that it would benefit only the Arabs, who already have late-model weapons.

An intensified Arab-Israeli arms race accordingly has begun. Shimon Peres, director general of the Israeli Ministry of Defense, has presented Western countries with a detailed list of Israel's armament needs.

A settlement of Arab differences in accordance with the UN General Assembly resolution of 21 July would only remove deterrents to coordinating Arab hostility against Israel. Heretofore, intra-Arab differences have mitigated the effectiveness of the collective Arab threat to Israel. Arab disunity was a considerable factor in Israel's success in the Arab-Israeli war of 1948 and permitted the Israelis to engage

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Egypt alone in the 1956 Sinai campaign. The overthrow of the Nuri Said regime in Iraq, however, eliminated Nasir's principal Arab opponent and installed a government there favorable to him. The increasing likelihood that his sphere of influence eventually will also include Jordan and Lebanon confronts Israel with encirclement by Arab states responsive to the leadership of its archenemy.

Jordan remains the key. Its absorption into Nasir's sphere of influence could result in the deployment of UAR troops and Soviet weapons along Israel's 330-mile Jordanian border. Should

this occur soon as a result of a coup in Jordan, the Israelis have clearly indicated they will fight. If the Jordanian crisis instead evolves without violence in Nasir's favor, Israel will still face the same ultimate threat. In such a situation, the Israelis probably would decide to take the military initiative at a time and place of their own choosing in order to achieve maximum advantage. The timing of any such initiative would depend on the length of time required for assimilating the weapons they obtain from the West and on their assessment of when the Arabs will achieve proficiency with Soviet arms. 25X1

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POLISH ECONOMIC DEPENDENCE ON THE BLOC

The pattern of industrialization followed by Poland, partly at Soviet dictation, since the early postwar years has tended to reduce the supply of goods it can sell at a profit on Western markets and to increase its economic dependence on the bloc. Although there have been important modifications in the order of economic priorities since 1955, the legacy of the Stalinist period and present party goals for economic development will tend to preserve this dependence, at least through the present Five-Year Plan (1956-60).

While the West's share in Polish foreign trade has increased from 30 percent in 1954 to 41 percent in 1957, and while the Poles are clearly making

strong efforts to diversify their foreign markets and sources of supply--both for the direct economic benefits and for the bargaining power such diversification provides in negotiation with the bloc--the Polish Government still considers most of its trade with the bloc vital to the achievement of its economic objectives.

The trade agreements negotiated with almost all bloc countries for the period 1958-60 appear to stabilize the bloc's share of Polish foreign trade at approximately the 1957 level. Moreover, the decline in West European demand for certain important Polish exports--especially coal and meat--and the exhaustion of most sources of Western credits to Poland make an expansion of trade with the West

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on favorable terms extremely difficult in the short run. Soviet attempts to promote bloc economic integration by strengthening CEMA might also hinder such an expansion, although it is too early to judge CEMA's effectiveness.

Only a small proportion of Poland's imports of consumer goods and materials for light industry--with the exception of cotton and oilseeds--comes from the bloc. On the other

hand, the bloc is the predominant source of imports of liquid fuels, machinery (equipment and parts), and most of the raw materials used in heavy industry. It is also the major market for exports of machinery and equipment, the production of which is growing rapidly.

The largest single economic factor tying Poland to the bloc is the need for a market for the output of its newly developed metallurgical and machinery in-

dustries. Only 12 percent of Polish machinery exports have gone to the West in spite of strenuous efforts to find markets in underdeveloped countries and in Western Europe. About half of Poland's scheduled exports of machinery during 1958-60 are to be purchased by the Soviet Union, and recent trade agreements also provide for increased machinery exports to other bloc countries.

A large portion of Poland's stock of machinery and equipment is of Soviet design and uses Soviet parts, and many investments have been planned with the expectation of bloc deliveries of machinery and equipment, although to a lesser degree than was the case before Gomulka's return to power. Poland also exports to the bloc significant quantities of its output of coal, coke, zinc, rolled products, rolling stock, ships, machine tools, calcinated and caustic soda, and simple coal-tar derivatives.

SOVIET BLOC SHARE IN POLISH FOREIGN TRADE

EXPORTS:

AS PERCENT OF POLISH PRODUCTION	TOTAL	BLOC	USSR
Machinery and equipment	14	12	7
Hard coal	14	7	0
Coke	18	17	0
Rolled products	17	10	2
Zinc	52	42	19
Soda ash and caustic soda	18	13	11
Cement	3	2	2
Cotton fabrics	11	2	0.4
Sugar	32	17	17
Meat	7	5	4

IMPORTS:

AS PERCENT OF POLISH CONSUMPTION	TOTAL	BLOC	USSR
Machinery and equipment	28	22	9
Iron ore	82	57	53
Manganese ore	100	99	73
Chromium ore	100	66	34
Copper	71	35	29
Alumina	100	100	0
Potash	100	100	0
Rubber(incl. synthetic)	100	27	11
Petroleum and products	90	73	46
Cotton	100	58	55
Wool	69	0	0
Grains	12	3	3

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Soviet Economic Pressures

The closeness of Poland's economic ties with the bloc puts the Soviet Union in a strong position to influence Polish actions in other spheres. Soviet economic pressures are likely to be most effective when employed in moderation in bargaining on limited issues.

Political concessions could be exacted, for example, by offering economic aid or better terms of trade, or by withholding credits or temporarily slowing the flow of selected raw materials. There are indications that the Soviet Union resorts to this tactic at times now. However, basic concessions probably could not be exacted from the Polish Government by economic dictation, that is, by repeated small pressures which at some point would make the present economic relationship unfavorable to Poland, or by a partial or complete embargo on bloc trade with Poland.

It appears that, if necessary, Poland could adjust its production structure sufficiently to make practicable a shift of trade to the West. Such an adjustment was made by Yugoslavia after 1948 and by Poland after World War I when the newly formed nation had not only to create a pattern of foreign trade but also to develop domestic trade almost from scratch. After World War II, Poland shifted most of its trade from the West to the bloc.

Economic sanctions leveled against Poland by the bloc would not greatly reduce supplies of essential consumer goods in the short run, since Poland is practically self-sufficient agriculturally and a large share of its imports for light industry comes from outside the bloc.

Poland nevertheless would certainly suffer heavy economic losses from a bloc embargo.

The metallurgical and machinery industries would be affected immediately and most severely for lack of supplies of ferrous raw materials and machine parts. Investments would in turn be greatly reduced, and there would be severe unemployment in certain industries. Yet given the necessary foreign exchange, Poland could obtain from the West an adequate quantity of nearly all goods now imported from the bloc, and without delay if the present buyers' market for most raw materials persists.

The greatest difficulty would lie not in obtaining imports, but in shifting exports from bloc to Western markets within a reasonably short time and on a large scale. For the country's largest export commodity, coal, the shift could be made only at substantially lower prices and in reduced quantities; for machinery, the second most important export at present, the shift could probably not be made for many years, if at all. Without large-scale Western aid, the necessary adjustments in production and trade would be extremely slow and painful. In the long run, Poland could profitably expand its exports to the West of processed foods, textiles, fine ceramics, various handicraft products, and certain types of steel, machinery, and chemicals.

The Soviet Union can exercise considerable influence on Polish policies through economic negotiations, but is unlikely to make extensive use of economic sanctions. Such sanctions would probably accomplish nothing that could not be done by political means or by the threat of military action. They would tend to bring about conditions inimical to Soviet interests--a shift in Poland's economic orientation to the West, and possibly enhanced popular support for the Gomulka regime.

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BRAZIL'S FINANCIAL SITUATION

Brazil in recent weeks has curbed imports, cut back this year's economic development expenditures, and undertaken a number of other emergency measures designed to head off a foreign exchange crisis in 1959. Even if these measures are fully carried out, the country will continue for some years to suffer severe financial stresses and international payments difficulties.

The payments difficulties, although exacerbated by recent events, derive mainly from the basic pattern of Brazil's foreign trade. The drive for industrialization and an expanding population have meant a continually increasing demand for imported capital goods, while Brazil's ability to pay has remained dependent on its traditional agricultural exports.

Industrial Development

The postwar development of Brazil's economy has been so rapid that the industrial sector, which before the war was only half as important as agriculture, by 1951 equaled the agricultural sector's contribution to the gross national product. Despite this, however, the country's industry--both heavy and light--still caters principally to domestic demand, and contributes

almost nothing to export earnings. The administration of President Kubitschek, elected in 1955 on a platform of "fifty years of economic progress in five," had redoubled the past emphasis on industrialization, setting goals that will cost \$2.3 billion, of which \$1.2

BRAZIL: COMPOSITION OF FOREIGN TRADE

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EXPORTS	1956	1957
COFFEE	71.0	60.7
COCOA BEANS & BUTTER	5.4	6.4
PINE WOOD	2.3	4.6
IRON ORE	2.4	3.4
CANE SUGAR		3.3
COTTON	3.2	3.2
OTHER	15.7	18.4
TOTAL	100.0%	100.0%
(MILLION DOLLARS)	\$1,482	\$1,392

IMPORTS	1956	1957
PETROLEUM & PRODUCTS	22.2	17.3
TRANSPORTATION EQUIPMENT AND PARTS	5.9	11.4
WHEAT AND WHEAT FLOUR	9.3	7.0
NONFERROUS METALS	4.9	4.1
NEWSPRINT, PAPER & PULP	4.6	4.0
MISCELLANEOUS IRON MANUFACTURES	2.5	3.7
FERTILIZERS, SODAS & ANILINE DYES	2.4	1.8
OTHER	48.2	50.7
TOTAL	100.0%	100.0%
(MILLION DOLLARS)	\$1,234	\$1,489

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billion will be required in foreign exchange.

The government is aware of the varied difficulties emphasized by unbalanced economic development and indeed estimates that Brazil will not meet the United Nations standard of per capita income for a "developed country" before 1980. It is trying at present to diversify exports, particularly by encouraging development of the country's extensive deposits of

Brazil is also vulnerable to the threat of continuing world overproduction of coffee. Although it is still the largest coffee grower, supplying 40 percent of the total, Brazil's share of the world market has dwindled steadily over the past 20 years--principally as a result of competition from African coffee. There is little prospect of regaining the lost portion even should the African producers agree to join the world coffee-marketing agreement now under discussion.

WORLD COFFEE PRODUCTION
(IN THOUSAND BAGS)*

	1935-36	1946-47	1953-54	1954-55	1955-56	1956-57	1957-58(EST)
BRAZIL	25,340	18,704	19,700	18,100	23,500	18,000	23,500
COLOMBIA	4,452	5,840	7,088	6,405	6,800	7,000	7,000
OTHER LATIN AMERICA	6,697	6,980	8,301	9,004	9,096	9,460	9,887
TOTAL LATIN AMERICA	36,489	31,524	35,089	33,509	39,396	34,460	40,387
AFRICA	2,602	4,385	6,790	7,112	8,749	8,685	8,235
ASIA & OCEANIA	2,495	1,001	2,117	1,567	2,266	2,572	2,688
TOTAL WORLD PRODUCTION	41,586	36,910	43,996	42,188	50,411	45,717	51,310

*ONE BAG EQUALS 132.276 LBS.
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Under the terms of this agreement, Brazil is to withhold 40 percent of its marketable crop, compared with 15 percent for Colombia and 5-10 percent for other producers. For the first six months of 1958, Brazil's coffee exports were down almost 10 percent over the same period last year. In addition, the price of Brazilian coffee had dropped from 55 to 45 cents per pound by early September.

manganese and high-grade iron ore, but this effort has been undercut by the decline during the past year in world demand for these products.

Coffee and the Economy

Coffee, although accounting for only 5 percent of Brazil's GNP, has largely financed its vast postwar industrial expansion by providing 60 to 70 percent of the country's foreign exchange and an even greater percentage of its dollars. This dependence on a single commodity has made Brazil especially vulnerable to the vicissitudes of the world market, in which prices have fluctuated from 88 to 45 cents per pound over the past five years.

Foreign Exchange Commitments

Despite the serious drop in coffee prices and sales, Brazil's trade balance was favorable in the early months of 1958, and the drain on foreign exchange appeared primarily the result of payments on foreign loans and investment. Such payments amounted to \$170,000,000 in 1957 and are scheduled at \$305,000,000 for 1958--or more than 20 percent of the country's total 1957 exchange earnings. This schedule of repayments continues to balloon through 1959 and 1960 and will be extremely heavy even should Brazil succeed in making arrangements to postpone payments on the US private consortium loan of \$200,000,000 that falls due in those years.

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In early May of this year, Brazil's dollar holdings had virtually reached the zero mark and continued imports were possible only through emergency loans from private American banks. Subsequent loans from the IMF and the Export-Import Bank have brought total emergency assistance for the year to more than \$250,000,000, but even this may be insufficient to meet Brazil's needs.

Hope of New Investment

The extent to which new foreign investment can be expected to remedy the foreign exchange imbalance is questionable. Although the Kubitschek regime has actively solicited foreign investment in all fields except oil, the vast inflow of the past decades--which brought US investment to \$1.2 billion--has begun to taper off and, in the past five years, profit remittances have exceeded new investment by between \$100,000,000 and \$150,000,000 annually. The most ambitious new investments are being made by Japan and Germany. Some large new US operations may be undertaken in iron, should the world market improve, but such operations would for the short run bring mainly equipment from the US and not dollar funds.

In the longer run, however, such investment--especially in the now-taboo field of oil--is considered one of the key solutions to Brazil's dollar problem. Oil imports cost Brazil between \$250,000,000 and \$270,000,000 annually, mostly in dollars, and comprise about 20 percent of the value of total imports. Brazil was reported "shaken to its roots" by the news in July that Argentina had reached agreements with private oil companies willing to invest almost \$1 billion there--on a

nonconcession basis under contract to the State Oilfields Administration. Nevertheless, the Kubitschek government, under renewed pressure from the army and other vocal nationalist groups, still appears fearful of risking any compromise with private investment in this field.

BRAZIL: REPAYMENT OF OBLIGATIONS ON FOREIGN LOANS
(MILLION DOLLARS)

	1958	1959	1960	1961	1962
CONVERTIBLE CURRENCIES	231.9	262.8	323.8	173.2	91.4
CURRENCIES OF LIMITED CONVERTIBILITY	59.0	56.4	40.1	27.2	13.5
INCONVERTIBLE CURRENCIES	14.0	9.9	4.8	3.5	1.9
TOTAL	304.9	329.1	368.7	203.9	106.8

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Brazil's national oil monopoly, Petrobras, has been widely praised over government radio stations in recent weeks for its success in having doubled production for the second straight year. It is now producing about 20 percent of national demand, but this is the result of transportation improvements and not of new discoveries.

Political Difficulties

The administration's recent strong praise for the government oil monopoly is probably dictated in part by the approach of the 3 October congressional and gubernatorial elections. Within Kubitschek's shaky congressional coalition, the leftist Labor party and the allied Social Progressive party are expected to gain at the expense of his own Social Democratic party. Some gains may also be made by the leading opposition party, the National Democratic Union.

A number of the emergency measures taken to head off a foreign exchange crisis are necessarily unpopular. That reducing imports 40 percent is particularly subject to

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political attack, since it appears to have contributed to the new spurt in domestic inflation this year. It is there-

fore questionable whether all the emergency measures will survive the campaign and be fully carried out.

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NIGERIA'S PRE-INDEPENDENCE PROBLEMS

African regional leaders in Nigeria will meet with British representatives at a conference scheduled to begin in London on 29 September to establish the date for Nigeria's independence within the Commonwealth and to consider the reports of commissions which have been studying financial and political problems. They have unilaterally set April 1960 as the date, even though the country still lacks national unity.

Nigeria, the largest unit in the British colonial empire, has a population of over 35,000,000. Under a 1957 constitutional arrangement with Britain, there are a central government having carefully defined powers and four regional governments with local self-government except for such matters as defense, police, transportation, and currency. The central government embraces the office of the federal prime minister, who is assisted by a cabinet which is representative of the leading party of each region, and a federal House of Representatives. During the past year, Nigeria and Britain have reached agreement on Nigeria's responsibility for its armed forces, a central bank and currency, and arrangements to train Nigerians for the diplomatic service.

Federal Prime Minister Abu Bakr Tafawa Balewa believes the

country is in a dangerous mood because of the widespread nationalist feeling. He feels London must recognize the 1960 date for Nigeria's independence even though the political leaders have not been able to rise above regional religious and tribal differences. Similarly, the British governor general believes Britain must either grant independence by mid-1960 or move in troops.

Earlier Conference

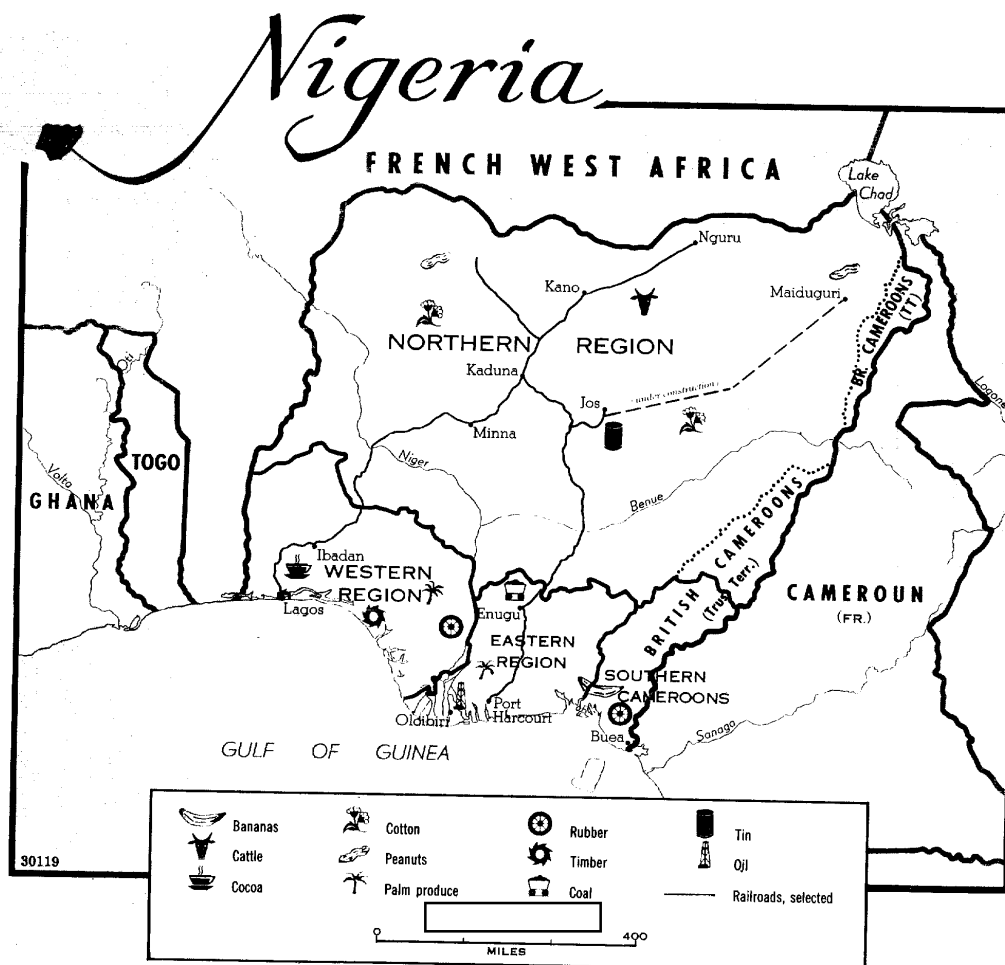
The forthcoming conference is a follow-up to a meeting in May-June 1957 at which Nigeria's future status was discussed. Commissions were set up to study problems such as allocation of revenue between the central government and the regions, control of the police, and recognition of the rights of tribal minorities by the creation of new political subdivisions. At that time British officials also promised to give sympathetic consideration to early independence for Nigeria. Subsequently, however, the Nigerian leaders unilaterally set 2 April 1960 as the date for independence.

The leaders now are reported dissatisfied with the Minorities Commission's proposal that no new regions be created, some federal control be extended over the minority tribal areas, and annual reports be submitted to the federal House of

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Representatives. Each leader wants to carve up the regional bailiwick of opposing politicians in order to weaken their influence and destroy their opportunity to achieve the commanding national position. In view of Nigeria's heterogeneous tribal situation, any national leader must form a coalition with his counterpart in another region. There are constant rumors of political deals but no firm alignments thus far.

A united Nigeria has no historic precedent. In 1914, Britain joined its separate protectorates of Northern and Southern Nigeria into one administration; since then London has tried to develop Nigerian unity while gradually increasing self-government. This approach has spurred regional demands for greater autonomy, to which London has

reluctantly agreed providing the functioning of colony-wide enterprises, such as the transportation system, were not adversely affected.

Regional Breakdown

At present there are four regions--each with its own prime minister and legislature. The Northern Region contains over half of the country's population but a smaller proportion of the wealth. Culturally distinct, the Northern Region is overwhelmingly Moslem and politically backward. It is controlled by emirs who rely heavily on British guidance. During the 19th century, the emirs and their armies were a threat to the more advanced Christians and pagans of the south. In recent years, however, the Moslems have feared that Nigerian independence would

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lead to an influx of southern administrators, clerks, and technicians. Northern politicians therefore have resisted the drive toward early independence. Their leader, the Sardauna of Sokoto, however, recently joined the other Nigerian leaders in their demand for independence.

Southern Nigeria, divided into the Eastern and Western Regions on the basis of distinct tribal groups, now is the scene of the bitterest political skirmishing. Each region has an ambitious, foreign-educated prime minister who aspires to dominate a united Nigeria--Obafemi Awolowo in the west, Nnamdi Azikiwe in the east. The governing parties are formed from the dominant tribal groups, while the opposition's strength is drawn from the minorities.

The political situation in the Eastern Region--described by the federal prime minister as virtually "a shambles"--has become increasingly unstable. In June 1958, regional Prime Minister Azikiwe's control was seriously challenged by 31 important members of his party, and the federal prime minister and the Western Region's prime minister are apparently increasing their intervention in the affairs of the Eastern Region. If regional opposition to Azikiwe's questionable methods grows, he will probably not become an effective influence on the national scene.

The Southern Cameroons is the fourth and smallest region. Its politicians, however, are preoccupied with the question of reunification with the French trust territory of Cameroun and do not play a significant role in Nigeria's political developments.

Economic Problems

Political disunity in Nigeria is having an adverse effect

on the nation's economy, particularly on economic development. Disagreement over economic policies and a shortage of competent personnel have already forced an extension of the original 1955-60 development program to 1962. These factors have also restricted the country's rate of economic growth. Nigeria's gross national product has grown annually by about 5 percent since 1951, but half of this may represent an inflationary rise in prices.

The relatively limited foreign investment in Nigeria is largely British, and Britain accounts for about 55 percent of Nigeria's annual trade of \$770,000,000. This pattern of heavy reliance on the sterling area is not likely to be seriously changed following independence.

Falling world commodity prices are having an increasingly adverse effect on the economic structure. Restrictions on tin production have caused the lay-off of about 18,000 miners in the Northern Region, while falling rubber prices have destroyed much of the incentive for the peasant rubber producers in the Western Region. A 45-percent decline this year in the cocoa crop--the region's economic mainstay--also damaged the economy, although prospects for the forthcoming crop season appear brighter.

The Eastern Region may suffer from a reappraisal of its oil potential now being hinted at by some Shell - British Petroleum officials. Considerable development has taken place along the coast, but the high cost of transporting oil to ships and less favorable indications of oil are dampening earlier optimism.

Despite an estimated \$600,000,000 in sterling reserves in London, Nigeria may also experience balance-of-payments difficulties soon. This is primarily

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the result of larger imports of heavy capital goods for the economic development program. In 1956 and 1957 Nigeria had an annual trade deficit averaging

about \$67,000,000; in the first quarter of 1958, the trade deficit was \$9,500,000, compared with a surplus of \$2,200,000 in the comparable period of 1957.

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